



[2410-OYC]

DEPARTMENT OF THE INTERIOR

National Park Service

Proposed Concession Contract for Shenandoah National Park – Alternative Formula for Calculating Leasehold Surrender Interest

AGENCY: National Park Service, Interior.

ACTION: Notice

SUMMARY: The National Park Service invites public comments on a proposed alternative formula for the value of leasehold surrender interest to be included in its proposed ten-year concession contract for Shenandoah National Park. The contract will cover operation of the lodging, food and beverage, retail sales, gasoline, and horseback riding operations at the Park.

DATES: Public comments will be accepted on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Send comments to Ms. Jo A. Pendry, Chief, Commercial Services Program, National Park Service, 1201 Eye Street NW, 11th Floor, Washington, DC 20005 or via e-mail at jo_pendry@nps.gov or via fax at 202/371-2090.

FOR FURTHER INFORMATION CONTACT: Jo A. Pendry, 202/513-7156.

SUPPLEMENTARY INFORMATION:

The National Park Service will be soliciting proposals for operation of the lodging, food and beverage, retail sales, gasoline, and horseback riding operations at Shenandoah National Park in 2012. The new contract is intended to be for a term of 10 years and will include an alternative formula for calculating leaseholder surrender interest. In this notice, we are soliciting comments on our use of this alternative formula. While we aren't required by law to solicit comments on this alternative formula, we are providing an opportunity for public comment because this is only the second time that we have proposed using an alternative LSI formula.

Leasehold surrender interest (LSI) is the interest in real property improvements that a concessioner provides under an NPS concession contract. Public Law 105-391 of 1998 (the 1998 Act) established the standard LSI valuation formula. The formula is generally as follows:

- the initial construction cost of the related capital improvement
- adjusted by the percentage increase or decrease in the Consumer Price Index (CPI)
- less physical depreciation of the related capital improvement

The 1998 Act also allows alternative LSI-value formulas for contracts with an LSI value over \$10 million. Because the new contract for Shenandoah National Park will exceed \$10 million, we are proposing to use an alternative LSI formula. Under our proposed alternative formula, the LSI value of all eligible capital improvements will be depreciated annually, in equal portions, on a forty (40) year, straight-line basis during the contract's 10-year term.

We have made two determinations

We have determined, subject to consideration of public comments, that:

- The proposed alternative LSI formula, in comparison to the standard LSI formula, is necessary to provide a fair return to the Government and to foster competition for the new contract by providing a reasonable opportunity for profit to the new concessioner.
- The proposed alternative LSI formula is consistent with the objectives of the 1998 Act, particularly, as discussed below, with respect to the fair return it will provide to the Government and the new concessioner and the enhanced competition it will foster.

The 1998 Act does not require these determinations and this *Federal Register* notice for alternative LSI formulas (such as the one we propose) that are based on annual straight line depreciation of the initial value as provided under 1998 Federal income tax laws and regulations. However, because this is only the second time that we have proposed using an alternative LSI formula, we have made these determinations and are publishing this *notice to solicit* public comment.

If we adopt the alternative LSI formula, it will apply only to the new contract, SHEN001-13. We have made no decision to apply the proposed LSI formula or any other LSI alternative to

future concession contracts. If we consider using an alternative LSI formula for any other contracts, we will ask for public comments if required or appropriate.

First determination: Fair return to the government.

We have determined, subject to consideration of public comments, that the proposed alternative LSI formula is necessary to provide a fair return to the Government, as well as helping to provide a fair return to the new concessioner.

We consider that “fair return” to the Government includes the requirement of the 1998 Act that we include in concession contracts a franchise fee payable to the Government that is based upon consideration of the probable value to the concessioner of the privileges granted by the contract. However, under the standard LSI formula, the amount of money that we would pay (directly or indirectly) for LSI as of the expiration of the new contract is inevitably speculative as of the time of contract solicitation, contract award, and during the contract term. This is because we and prospective concessioners must estimate in advance the future CPI rate, the amount of depreciation that will occur over the term of the contract, and the cost to cure the depreciation.

Thus, if we use the standard LSI formula to establish the required minimum franchise fee for the new contract, that fee will reflect speculative estimates of CPI and depreciation rates over the term of the contract. Likewise, when a prospective concessioner offers to meet or exceed the minimum franchise fee that we would establish under the standard LSI formula, this business decision relies on speculative estimates of future CPI and depreciation rates. A more dependable LSI value will allow us to better project the long-term cost of the concessioner’s investment and to calculate a franchise fee that provides a fair return.

For these reasons, we consider it necessary to include the proposed alternative LSI formula in the new contract in order to provide a fair return to the Government.

Second determination: Fostering competition.

Elimination of the speculative nature of LSI value by using the proposed LSI formula is also considered necessary to foster competition for the new contract by providing a reasonable opportunity for the concessioner to make a profit under the new contract. This is because prospective concessioners will know with a high degree of certainty (subject only to estimates of the value of any new capital improvements constructed or installed during the term of the contract) how much money they will be paid for initial LSI upon the expiration of the new contract. The proposed LSI formula eliminates speculation regarding CPI and depreciation required under the standard LSI formula. The resulting lower risk and greater certainty in the business opportunity provides the concessioner reasonable opportunity for profit under the terms of the new contract. It should also encourage businesses to apply for the new contract, thereby fostering competition.

Private firms not familiar with the NPS concession program have indicated that the complexities and uncertainty of the standard LSI formula have deterred them from submitting offers for concessions. We believe that using the proposed alternative LSI formula in the new contract will foster competition by providing interested entities with a reasonable opportunity for profit that, with respect to LSI, is assured, understandable, and more comparable to practices in the private sector.

In addition, the estimated lower LSI payment under the alternative formula (as opposed to a higher estimated value provided by the standard LSI formula) allows us to charge a lower minimum franchise fee. This will ensure the concessioner greater cash flows during the term of the contract, in contrast to the standard LSI formula's higher (and uncertain) LSI payment at the expiration of the contract. Since many prospective concessioners will likely prefer the higher cash flows throughout the contract term under the proposed LSI formula, the alternative formula should foster competition for the new contract.

The proposed LSI formula will also enhance competition for the concession contract that will succeed the new contract. This is because the final value of the contract's LSI should be significantly lower than it would be under the standard LSI formula, thereby lowering the amount of LSI purchase money needed by a prospective new concessioner. This lower entry cost should encourage competitive proposals from prospective concessioners.

The proposed LSI formula should not materially affect the new concessioner's projected rate of return under the new contract. This is because, in developing the new contract's minimum franchise fee, we assessed projected revenues and expenses and used industry standards to estimate a fair return to the new concessioner. This estimate includes the cost of acquiring existing LSI.

The new contract's minimum franchise fee thus reflects the financial consequences of the proposed LSI formula. This means that the estimated fair return to the new concessioner would be approximately the same whether the new contract included the standard LSI formula or the proposed LSI formula (taking into account the time value of money). The proposed LSI formula will not materially change the projected fair return to the new concessioner, but will reduce the speculative nature of LSI value under the standard formula. With respect to the rate of

return, the impact of the use of the proposed LSI formula is neutral, but not adverse, to the requirement of fostering competition.

Public availability of further information

Complete details and further explanation of the proposed LSI formula will be in the proposed prospectus for the new contract that is publically available at <http://www.nps.gov/commercialservices>. In the interest of time, we may issue a prospectus for the new contract in FedBizOpp.gov that incorporates the proposed LSI formula. If consideration of public comments in response to this notice causes us to alter the proposed alternative LSI formula, we will amend the prospectus accordingly (through publication in FedBizOpp.gov) before the deadline for submission of proposals.

We invite your comments and will consider all comments that we receive by the deadline in the DATES section of this notice.

Before including your address, phone number, e-mail address, or other identifying information in your comment, you should be aware that your entire comment – including your personal identifying information – may be made publicly available at any time. While you can ask us in your comment to withhold your personal identifying information from public review, we cannot guarantee that we will be able to do so.

Peggy O'Dell
Deputy Director, Operations

